



## Department of Energy

Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

Executive Office

January 24, 2003

In reply refer to: KE-4

Ms. Judi Danielson, Chair  
Northwest Power and Conservation Council  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204-1348

Dear Ms. Danielson:

Please accept my thanks for the letter of December 20, 2002, which recognizes the significant financial challenge that the Agency faces through FY 2006. I am particularly appreciative of your commitment to work with Bonneville Power Administration (BPA) in contributing to a solution that will help to provide near-term relief to the Agency's liquidity and rate concerns while we continue to meet our statutory obligations, including fish and wildlife responsibilities under the Northwest Power Act and the Endangered Species Act.

The difficult financial situation that BPA faces is the result of a number of complex factors including low prices in the secondary power market, a struggling Northwest economy, and projected financial commitments that exceed the level of revenues we are producing. The three Cost Recovery Adjustment Clauses available to BPA provide the tools to enable us to achieve the necessary revenues to meet all of our obligations as planned. Nevertheless, the state of the regional economy and the significant rate increases we have already put in place lead us to believe we must make every reasonable effort to reduce costs and maximize efficiencies to minimize any potential rate increase. We are seeking efficiencies across all program categories that we fund.

Over the last six months we have worked with our Federal and non-Federal partners to reduce our costs for the remainder of this rate period by \$350 million through a combination of reduced expenses, deferrals and other actions. This includes reductions in internal operations costs, conservation and renewables, funding for the Corps of Engineers and Bureau of Reclamation, and for Energy Northwest. In the meantime, BPA ratepayers have withstood an increase in wholesale rates of close to 50 percent with a strong likelihood that we will begin the process for implementing the Safety Net Cost Recovery Adjustment Clause (SNCRAC) in the near future resulting in a further increase in rates. The \$350 million in savings will be embedded in any future SNCRAC process and reduce the size of a potential rate increase.

In my December 10 letter, I asked the Council to:

1. Take appropriate steps to ensure that spending for the Integrated Program does not exceed \$139 million in expense accruals in FY 2003.

2. Prioritize program spending to create the opportunity to spend less than \$139 million in expense annually through the FY 2003-2006 period.
3. In accomplishing 1 and 2, prioritize program spending to assure BPA meets its obligations to fish and wildlife. We are asking the Council to establish criteria for setting priorities. We believe that core among these are projects needed to meet the requirements of the various biological opinions that apply to BPA, in particular the 2003 and 2005 check-ins for the National Oceanic and Atmospheric Administration (NOAA Fisheries') FY 2000 Federal Columbia River Power System Biological Opinion and to preserve previous important investments of the Fish and Wildlife Program.

Since that time as a result of further analysis and discussions with the Council and other parties, our views regarding FY 2003 expense levels have been modified.

An annual accrual expense level for the Integrated Program of \$139 million reflects an almost 40 percent increase over the previous rate period. While this was included as part of our base rate, I believe that to consider going above that level in the current Northwest economy would simply be asking too much of ratepayers. On the other hand, I believe that asking the Council to reduce its FY 2003 expense accrual spending to less than \$139 million may also be asking too much of the Council and the fish and wildlife managers. For that reason, we believe that an FY 2003 expense accrual level for the Integrated Program of \$139 million would, under the circumstances, strike an appropriate balance. However, due to the need to issue contracts for projects required to meet the FY 2003 check-in, it is critical that the Council complete its reprioritization process for FY 2003 no later than February 21, 2003.

In addition, BPA needs to decide soon whether to implement a SNCRAC. The continued dry conditions will have a significant effect on our secondary net revenues and increase the likelihood of initiating this process. If we were to start the process this year, it is our goal to conclude it and have new rates in place by October 1, 2003. In order to achieve that deadline the rates process must define cost levels by March 21, 2003. For that reason, I am asking the Council's guidance if it is feasible to lower the rate case estimate of average annual accrual expense spending for the Integrated Program to below \$139 million for the out-years of this rate period, and if it is, by approximately how much.

I realize that I have asked the Council to engage in an extraordinarily difficult exercise in reprioritizing the Integrated Program. That said, I want to assure you that it is BPA's intent to be consistent with the outcome of the Council's reprioritization process. My staff and I are committed to working through this process and to address issues that are of concern to us. Our near-term goal is to assure that after you make your recommendations there will be no surprises with respect to our actions.

I also believe that this admittedly difficult process is an important first step toward the long-term goal of incorporating least cost planning as a core approach to managing the Integrated Program. Moving collectively and collaboratively in that direction could be an important step toward

demonstrating to all interested parties in the region that ratepayers' funds are, in fact, being efficiently and effectively used to benefit the region's fish and wildlife.

We recognize that in order to move forward on FY 2003-06 funding options, a clear description of our capitalization policy is necessary. BPA staff is working with Council staff to develop options that are consistent with the following principles:

- Meet General Accepted Accounting Principles;
- Demonstrate measurable biological benefits for fish and wildlife; and,
- Take into account BPA's limited borrowing authority.

We acknowledge that there would have been less disruption if steps to improve some of the budgeting, financial tracking, and contracting systems used in the BPA Fish and Wildlife program had been taken earlier. We are working to strengthen the consistency and quality of those processes by importing knowledgeable staff from other parts of the BPA organization as well as taking other internal management actions. We will coordinate with you and your staff as those efforts progress.

We want to be clear that our goal continues to be that the budget for the Integrated Program remains legally and scientifically justifiable. We commit to working with you to develop biologically sound recommendations that meet our statutory obligations. I am encouraged by our agreement that successful Biological Opinion implementation is critical to the region, specifically successful passage of the FY 2003 and FY 2005 check-ins. We are working closely with NOAA Fisheries to ensure a coordinated position on what constitutes successful implementation. BPA and NOAA Fisheries agree that successful implementation of research, monitoring, and evaluation measures is key to developing adequate, measurable performance standards. Not only is this essential to verify that the Integrated Program achieves the desired biological results, but it is also key to ensuring that those results are achieved at the least cost.

Thank you for your leadership to the region as we work toward our common goal of protecting and enhancing the Northwest's fish and wildlife while also maintaining an economic and reliable power supply.

Sincerely,

/s/

Stephen J. Wright  
Administrator and  
Chief Executive Officer

cc:

The Honorable Dirk Kempthorne, Governor of Idaho

The Honorable Ted Kulongoski, Governor of Oregon

The Honorable Gary Locke, Governor of Washington

The Honorable Judy Martz, Governor of Montana

Members of the Northwest Congressional Delegation